

Islamic banking in South Africa – form over substance?

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Declaration

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce by Coursework and Research Report at the University of the Witwatersrand, Johannesburg.

This research has been carried out according to the ethical policies of the University of the Witwatersrand and has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other university.

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I. List of abbreviations and acronyms

Abbreviation/ acronym	Description
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
PLS	Profit and Loss Sharing
NCA	National Credit Act (2005)
ABSA	ABSA Islamic Bank (a division of ABSA Limited)
FNB	FNB Islamic Bank (a division of First National Bank)
Big Four conventional banks	Refers to the four biggest local banks in South Africa namely, ABSA, FNB, Nedbank and Standard Bank (in alphabetical order)
Big Four audit firms	Refers to the four biggest audit firms in South Africa namely, Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (in alphabetical order)

II. List of Islamic terminology and meanings

Islamic term	Meaning
<i>Quran</i>	The Islamic sacred book, the word of Allah (SWT) as dictated to the Prophet Muhammad (SAW) by the archangel Jibraeel and written down in Arabic.
<i>Riba</i>	Unjustified increment in borrowing or lending money, paid in kind or in money above the amount of loan, as a condition imposed by the lender or voluntarily by the borrower.
<i>Shariah</i>	<i>Shariah</i> is the sacred law of Islam. It is derived from four sources: the <i>Quran</i> , the <i>Sunnah</i> (the sayings and deeds of Prophet Muhammad (SAW) and that which the Prophet Muhammad (SAW) approved and disapproved of), <i>Ijma</i> (consensus of companions of the Prophet Muhammad (SAW)) and <i>Qiyas</i> (reasoning by analogy).
<i>Fatwa</i>	A ruling on a point of Islamic law given by a recognized authority.
<i>Istinbaat</i>	The process of deriving certain rules or meanings from <i>Shariah</i> .
<i>SWT</i>	When writing the name of Allah (SWT), Muslims often follow it with the abbreviation (SWT). These letters stand for the Arabic words "Subhanahu Wa Ta'ala," meaning "Glory to Him, the Exalted." Muslims use these or similar words to glorify Allah (SWT) when mentioning His name.
<i>SAW</i>	When writing the name of the Prophet Muhammad (SAW), Muslims often follow it with the abbreviation (SAW). These letters stand for the Arabic words "Sallallahu Alayhi Wasallam", meaning "may the blessings of Allah (SWT) be upon him (Prophet Mohamed (SAW)); and peace". Muslims use these words to show respect to Prophet Muhammed (SAW) when mentioning his name.
<i>Amaanah</i>	<i>Amaanah</i> is something that is very expensive and precious to its possessor, and is given to a faithful person to keep it safe. Because the possessor believes that the one he gives his valuable to is very faithful and can take care of it better than the possessor himself.

III. List of referenced accounting standards issued by the IASB

Standard	Description
ED2015/3 Conceptual Framework	Exposure Draft - Conceptual Framework for Financial Reporting
IAS 17	Leases
IFRS 9	Financial Instruments
IFRS 11	Joint arrangements
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

IV. Abstract

The purpose of this study is to analyse the operational economics of Islamic banking transactions in South Africa and to understand how the economics of these transactions lead to the IFRS accounting. The study also aims to highlight the similarities and differences of accounting for these transactions using IFRS, across the different South African banks.

The transactions analysed are deposit products of *qard* and *mudaraba* and financing products of *murabaha*, *ijarah* and diminishing *musharaka*. The study was conducted through interviews with representatives from each of the four South African banks which offer Islamic banking products. Interviews were semi-structured and allowed for interviewees to voice their perspectives increasing the validity of the interviews. The study found that the specific *Shariah* requirements of Islamic banking transactions are considered and included in the structure of the contracts by all four banks offering Islamic banking products. However, the economic reality of these transactions closely resembles conventional banking transactions. The study also found that all four banks account for Islamic banking transactions using IFRS but the accounting does not match the *Shariah* requirements of each transaction, creating a cognitive dissonance between the accounting and the contractual form of the transactions. This study is the first of its kind in South Africa. The study adds to the IASB Consultative Group discussion on accounting for Islamic banking transactions under IFRS.

Key words: *Conceptual Framework, diminishing musharaka, IFRS, ijarah, Islamic banking, mudaraba, murabaha, qard*

1. Introduction

1.1. Purpose, context and significance of the study

Islamic banking has seen phenomenal growth since its earliest experiments in Egypt in 1963 (Ariff, 1988). Islamic banking held US\$1.8 trillion in assets globally at the end of 2013 and Islamic banking products were offered in more than 70 countries (Nazim & Bellens, 2013). While these numbers may seem significant, Islamic banking accounts for only 1% of banking assets held globally. The Muslim population of the world is estimated to be 1 billion (14% of the world population) and a resurgence of the Islamic way of life (Kuran, 2004) has made Islamic banking ideologically attractive. The minority Muslim population of South Africa introduced Islamic banking through Al Baraka Bank which opened its doors in 1989 with HBZ Bank following in 1995. Islamic banking gained prominence in South Africa when two of the Big Four conventional banks, First National Bank (FNB) and ABSA, introduced Islamic banking windows in 2004 and 2006 respectively (Nazim & Bellens, 2013).

Islamic banking is a manifestation of contemporary models of Islamic economics (Al-Arabi, 1966; Uzair, 1978; Siddiqi, 1983; Khan, 1986) and the concept of an alternate financial order, both of which include a moral and societal aspect missing from Western or secular economics (Ariff, 1988). Islamic banking is distinguished by its interest-free philosophy. The *Quran* (the Holy Book of Islam) explicitly prohibits charging or taking of *riba* (interest), regardless of the reason for the loan or investment. Prohibitions in Islam are for the purpose of promoting societal welfare, yet each prohibition allows viable alternatives, for example, wine and pork are prohibited for consumption in Islam but many other foods and drinks are allowed. Similarly, Islam allows profit-and-loss-sharing (PLS) arrangements as the alternative to interest-based transactions. Profit-and-loss sharing illustrates capital as a factor of production, while profits earned merely because of the passage of time (interest) are not allowed.

PLS based transactions are logically expected to be the cornerstone of Islamic banking, however, Islamic banking has evolved to include ordinary trade transactions (non-PLS) based on *Shariah* principles. Chong and Liu (2009), as well as Dusuki and Abozaid (2007), noted that PLS transactions were being replaced by ordinary trade transactions to the extent that only negligible numbers of transactions were PLS based. Non-PLS transactions make up more than 90% of Islamic banking transactions (Khan, 2010).

Conceptual criticisms of contemporary Islamic banking have been noted since inception. Studies by Taqī Uṣmānī (1998); Kahf (1999); Karim (2001); Zaher and Kabir Hassan (2001); Siddiqi (2006); Dusuki and Abozaid (2007); Chong and Liu (2009) and Kahn (2010), to name a few, criticised the application of PLS principles and the inclusion of non-PLS transactions into the Islamic banking business model. Islamic banks formally state, using the relevant *Shariah* terminology, the types of PLS and non-PLS transactions offered and the terms and conditions of each type of transaction. *Shariah* texts are widely interpreted and applied with little regard for consistency (Kamla, 2009). *Shariah* Supervisory Boards, the in-house *Shariah* counsel of all Islamic banking institutions, provide legitimacy to transactions by a process of formal approval when transactions are in compliance with *Shariah* (Khan & Bhatti, 2008). Common members on the *Shariah* Supervisory Boards of different Islamic banking institutions ensure consistency to some degree (Bassens *et al*, 2010), however, there is no literature to support or dispute this. While the above studies have widely debated the risk-sharing element of PLS transactions and the permissibility of use of non-PLS transactions, no specific research has been conducted on the practical execution (transactional analysis of Islamic banking transactions) at an individual bank level and whether these transactions meet the requirements of *Shariah*.

The harmonisation of accounting standards applicable for a global audience has been debated for decades and has culminated in the development of International Financial Reporting Standards (IFRS) in 2001. Islamic accounting research or searching for accounting solutions to Islamic banking transactions has not received equal prominence (Kamla, 2009). The establishment of the Islamic Development Bank in 1975 and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) in 1990 has promoted research in determining the accounting treatment of Islamic banking transactions. Research papers thus far have appropriately been focused on what should be taking place as Islamic accounting research is still in a normative phase.

Pure¹ Islamic banking includes an explicit social and moral agenda which is fundamentally different from conventional banking (Kamla, 2009). IFRS-compliant financial statements promote ethical reporting and fair presentation (*ED2015/3 Conceptual Framework*, 2015) and are structured around stakeholders in an efficient market, rather than on moral and societal welfare. Kamla (2009) argues that reporting financial results of Islamic banks under IFRS is a contradiction in ideology and, as a result, is conceptually incomparable to conventional banks.

¹ Pure in this case means without any deviation from the *Shariah*

South Africa adopted IFRS on 1 January 2005 and Islamic banks continue to report under IFRS due to the requirements of the South African Companies Act. How then, would South African Islamic banks report Islamic banking transactions? The International Accounting Standards Board issued *ED2015/3 Conceptual Framework* (2015) which states IFRS's as principles-based standards with emphasis on underlying substance and economic reality over legal form. Using a principles basis, is it possible for Islamic banking transactions, which include moral and societal values in the economics of each transaction, to be accounted for using the *ED2015/3 Conceptual Framework*?

Most countries in which Islamic banking is prominent use IFRS as the model of accounting or base local standards on IFRS (Karim, 2001). The Islamic banking business model prohibits *riba* (interest or the time value of money). This model utilises profit-sharing principles to distribute the returns of the Islamic bank's activities to depositors and uses ordinary trade-type transactions (non-PLS modes) as financing which are different to conventional type transactions. This makes it difficult for Islamic banks applying IFRS to determine which IFRS standards should be used to account for each type of Islamic banking transaction.

Islamic banking in South Africa is still in its infancy in terms of both market penetration and period of operations. Only two of the Big Four South African conventional banks (ABSA and FNB) offer Islamic banking products and the two other market participants are small subsidiaries of international banks. Islamic banks in South Africa only offer *qard* and PLS based *mudaraba* transactions for deposits and offer the PLS-based diminishing *musharaka*, as well as the non-PLS based options of *ijarah* and *murabaha* for financing.

To date, only two studies have been performed on the South African Islamic banking market, Saini *et al.* (2011) and Vahed and Vawda (2008). Both of these studies focused on the consumer who transacts with Islamic banks and not on the Islamic banking products. The purpose of this study is to understand the operational economics of Islamic banking transactions in South Africa and to understand and describe how Islamic banking transactions are accounted for under IFRS. The study aims to add to the international debate on the IFRS accounting of Islamic banking transactions and to provide insight on the analysis and judgements used by Islamic banks in South Africa to arrive at a given accounting treatment. This study further provides a better understanding of how Islamic banking transactions are executed in South Africa thereby providing a platform for deeper analysis from an Islamic, social and accounting perspective. This study is the first of its kind in South Africa.

1.2. Structure of the thesis

Section 2 provides the reader with the global context in which this study is based while simultaneously highlighting the local relevance. Section 2.1 examines the prior literature on the theological constructs of Islamic banking and provides an overview of the research conducted to date by comparing those theological constructs to current Islamic banking practices. Section 2.2 explains the *Shariah* requirements of the different modes of Islamic banking transactions and Section 2.3 identifies the challenges in accounting for these Islamic banking transactions under IFRS.

Section 3 explains the research methodology. This research uses semi-structured interviews with key participants in the Islamic banking community in South Africa to obtain rich information on how Islamic banking transactions are carried out and how the accounting for those transactions is determined. Section 3.1 explains the rationale for using interpretive research. Section 3.2 elaborates on the design by providing details on sample selection, ethical considerations, validity and reliability safeguards, as well as the advantages and disadvantages of conducting interviews.

Research findings are discussed in detail in Section 4. In Section 5.1 the objective of the research, the key findings and the closing remarks are discussed. Section 5.2 discusses the research contribution and Section 5.3 explains the research limitations and possible future areas of research.

1.3. Research question

What are the operational economics of Islamic banking transactions in South Africa and how do the economics of the Islamic banking transactions lead to the IFRS accounting for such transactions? The information obtained to answer this question will allow the researcher, simultaneously, to explore the similarities and differences in the IFRS accounting for Islamic banking transactions across the different South African banks.

1.4. Assumptions²

This study assumes that Islamic banks in South Africa use the definitions of transactions as found in *Shariah* law to structure their Islamic banking products. This study further assumes that *Shariah* Supervisory Boards at each of the South African Islamic banks make decisions on the compliance of specific transactions with *Shariah* law on these same definitions.

1.5. Delimitations³

Based on the assumption that Islamic banking transactions are structured according to *Shariah* law, an understanding of the *Shariah* law requirements is required to understand the operational economics (refer to section 2.2). Islamic scholars, however, use the guiding principles of *Shariah* law to deduce specific answers to new situations arising in the given times (an exercise called *istinbaat*). These specific answers are called *fatwas*. While this study assumes *Shariah* Supervisory Boards of Islamic banks use *Shariah* laws to make decisions on the compliance of specific transactions with *Shariah* law, this study does not take into account any *fatwas* passed by Islamic scholars as this will broaden this study beyond its scope (refer to section 5.3. for areas of future research).

² As recommended by Cresswell (2003), epistemology is explicitly presented so as to safeguard validity and reliability.

³ Another recommendation by Creswell (2009) is to define delimitations at the outset so that the purpose of the research is not misunderstood by the reader.

2. Theoretical and analytical framework

The primary objective of this section is to ground the study in the previous academic studies. Section 2.1 provides the Islamic context from which Islamic banking is derived. Section 2.2 provides the *Shariah* principles for Islamic banking transactions practiced in South Africa and Section 2.3 identifies the challenges of accounting for Islamic banking transactions under IFRS.

2.1. Theological constructs of Islamic banking

The central belief of Islam is that the universe and all that is in it is controlled by One True God, the Almighty Allah (SWT)⁴. He created man and put man on earth to fulfil certain purposes by obeying His commands. The commands of Allah (SWT) do not focus solely on religious rituals but cover every aspect of life. These commands are not so narrow as to leave no room for human intellect nor are they so broad as to be ambiguous and open to perception or desire. As such, Islam has provided human beings with a set of principles to govern their activities. The vast capabilities of human intellect are limited by subjectivity and human emotion which then limit humans' ability to reach truth. The principles provided by Allah (SWT) through His Prophet Muhammed (SAW)⁵ counter that limitation and, if obeyed, create a just and fair society (Taqī Uṣmānī, 1998).

Islamic principles involving commerce promote free business enterprise with a profit motive and recognise market forces but restrict certain economic activities. The prohibition of dealing in interest, hoarding, dealing in unlawful goods and services, gambling and speculative transactions are some examples of restricted activities. These restrictions are aimed at combatting human weaknesses such as greed, while maintaining balance and distributive justice and creating equal opportunities in the economy (Taqī Uṣmānī, 1998).

The basis of Islamic commercial transactions, derived from Islamic jurisprudence, inherently embody Islamic principles of balance, fairness and distributive justice. An Islamic banking system, by definition, should be differentiated by being (i) interest free, (ii) multi purposed (not

⁴ When writing the name of Allah (SWT), Muslims often follow it with the abbreviation (SWT). These letters stand for the Arabic words "Subhanahu Wa Ta'ala," meaning "Glory to Him, the Exalted." Muslims use these or similar words to glorify Allah (SWT) when mentioning His name.

⁵ When writing the name of the Prophet Muhammad (SAW), Muslims often follow it with the abbreviation (SAW). These letters stand for the Arabic words "Sallalaahu Alayhi Wasallam", meaning "may the blessings of Allah (SWT) be upon him (Prophet Mohamed (SAW)); and peace". Muslims use these words to show respect to Prophet Muhammed (SAW) when mentioning his name.

merely commercial) and (iii) equity-oriented (Ariff, 1988). This illustrates the concept of Islam as a way of life, permeating all areas of life, rather than being merely a religious pursuit.

There is overwhelming literature (Siddiqi, 2006; Kamla, 2009; Beck *et al*, 2013; Salleh, 2012) on how the differentiating factors listed above do not form part of the core business model of Islamic banks. The literature suggests that Islamic banking is not, in substance, interest-free. Chong and Liu (2009) conducted a study on the correlation of Islamic banking to conventional banking returns and concluded that overall Islamic deposits are not much different from conventional deposits. Changes in interest rates prompted changes in Islamic deposits investment rates while the reverse was not true.

All contemporary papers on Islamic economics and, by inference, Islamic banking (Al-Arabi, 1966; Uzair, 1978; Siddiqi, 1983; Khan, 1986) emphasise the role of ethical, moral and social considerations in Islamic finance. Islamic banks administer and use public funds and should serve the public interest. Ariff (1988) asserts that Islamic banks should play a social welfare role, instead of a profit maximisation role. This leads one to question whether Islamic banks embed non-commercial factors in their business models. Rethel (2011) analysed whether ethical and moral dimensions were included in Islamic banking, and found that Islamic banking is more concerned about presenting itself as normal financial activity and largely reproduces conventional banking.

Profit and loss sharing promotes the spreading of risk between the bank and investor. Beck *et al* (2013) found that Islamic banks were better capitalised and had higher asset quality. Islamic bank share prices also performed better during the sub-prime crisis for the same reasons (Kamla, 2009). However, non-PLS transactions now make up more than 90% of Islamic banking transactions (Khan, 2010), the economics of which closely resemble interest.

Conceptual criticisms of the application of Islamic banking have been noted since the inception of contemporary Islamic banking. Studies in Bangladesh (Huq, 1996), Egypt (Siddiqi, 1983) and Pakistan (Khan, 1986) criticised the application of PLS principles and the inclusion of non-profit sharing transactions in the Islamic banking business model. Recent studies conducted in countries with more mature and material Islamic banking industries (Saudi Arabia, United Arab Emirates, Qatar, Kuwait and Bahrain) have revealed a disconnect between the true spirit of *Shariah* law and Islamic banking (Iqbal & Molyneux, 2005). Ahmad (1994) theorises that the apparent similarities between conventional and Islamic Banking were simply a transitional phase implemented to steer away from conventional banking as Muslim clients had to be

offered products that they recognised. However, after over four decades of Islamic banking, there is no evidence of a drastic move away from conventional banking. Chong and Liu (2009) noted that competitiveness was a key factor in Islamic banking mimicking conventional banking as most countries operate a dual banking system and Islamic banks face the risk of 'withdrawal' should the *Shariah* be strictly applied which would result in losses for depositors. Haniffa and Hudaib (2010) discussed the evolution of Islamic finance and explored the tensions and conflicts in the political and socio-economic environment to illustrate how 'intentions' change.

2.2. *Shariah* requirements of Islamic banking transactions

Table 1 below lists the various modes under which Islamic banking transactions are conducted in South Africa. The *Shariah* requirements of each of those modes of financing and deposits are explained in this section.

Table 1: South African banks - Modes of Islamic deposits and finance

Bank	Deposits	Financing	Source
Al Baraka Bank	Qard & Mudaraba	Diminishing musharaka & Murabaha	http://www.albaraka.co.za/Islamic_Banking
ABSA	Qard & Mudaraba	Diminishing musharaka & Ijarah	http://absa.co.za/Absacoza/Islamic-Banking
FNB	Qard & Mudaraba	Diminishing musharaka & Ijarah	https://www.fnb.co.za/islamic-banking/index
HBZ Bank	Qard & Mudaraba	Diminishing musharaka & Murabaha	https://www.hbzbank.co.za/index

2.2.1 *Qard* transactions

In Arabic, *qard* literally means ‘to cut’. This is in reference to the lender ‘cutting off’ the asset from himself and giving it to the borrower. *Qard* is a loan which a person gives to another as a help, charity or advance for a certain time. One of the key features of *qard* is that it is payable on demand. Another distinguishing characteristic of *qard* compared to other forms of Islamic loans is that the same quantity of a similar commodity can be returned to the lender. This allows consumable and non-consumable assets to be loaned on a *qard* basis. For example, if Person A loaned money in the form of a single R100 note to Person B, Person B may repay the loan in R50, R20 or R10 denominations, provided it makes up the full R100. There is no need for Person B to return the exact same R100 note borrowed from Person A (Taqī Uṣmānī, 1998).

2.2.2 *Mudaraba* transactions

Mudaraba, the chosen mode of allocating returns to depositors for Islamic banks in South Africa, is a partnership between two parties where one partner provides capital while the other contributes expertise and management of the business. During the period of this partnership, the capital provider has no involvement in the day-to-day operations of the business. Profits are shared on a pre-arranged basis but losses are borne solely by the capital provider (it is presumed that the hard work and effort without compensation is the loss of the other partner). Another distinguishing feature of *mudaraba* is that any assets purchased by the partnership remain the property of the capital provider and any unrealised capital appreciation cannot be shared with the other partner. If the assets are sold and a profit made, those profits may be shared on the pre-arranged basis (Taqī Uṣmānī, 1998).

2.2.3 *Murabaha* transactions

Like *ijarah*, *murabaha* transactions are for general commerce and not financing. In its true Islamic connotation, *murabaha* is a specific type of sales transaction in which the seller discloses the cost of his commodity and the mark-up to the buyer. As a result, the rules relating to sales transactions apply. According to Islamic jurisprudence, for a sale to be valid, the sale commodity must physically exist at the time of the sale, owned by the seller and the seller must have physical or constructive possession of the commodity. The sale must also be instant and absolute (i.e. sale at a future date is not allowed), the delivery of the commodity

should be certain and the price must be certain. Islamic sales transactions are unconditional (Taqī Uṣmānī, 1998).

A sale that is concluded on a deferred payment basis is referred to as *bai' muajjal*. In this type of transaction, the date of the payment in the future should be fixed in an unambiguous manner and the deferred price may be different from the cash price. Islamic banks use a combination of the *murabaha* and *bai' muajjal* principles to finance assets. Often, the customer purchases the asset from the supplier on behalf of the bank (as an agent) and then offers to purchase the asset from the bank (at a mark-up). Similar to *ijarah*, the agent agreement is separate to the sale agreement and any conditions attached to the agency agreement or the sale agreement will render both agreements void. If the bank does not assume ownership risk (preferably physical possession) between the date of delivery from the supplier and the date of conclusion of the *murabaha* transaction, the conditions for sale will not be met (Taqī Uṣmānī, 1998).

2.2.4 *Ijarah* transactions

Ijarah is a term that relates to the usufruct of assets and lexically means 'to give something on rent'. It is analogous to leasing. *Ijarah* is not a mode of financing in origin but rather a normal commercial activity like a sale. Conventional financial institutions have developed the practice of purchasing and leasing assets (finance leases) by adding a stipulated interest rate to the cost of the asset and dividing it by the period of the lease. At the end of the lease, the asset is transferred to the customer or is purchased for a negligible amount (Taqī Uṣmānī, 1998).

A number of conditions should be met for it to qualify as an *ijarah* transaction. Firstly, there should be an identifiable asset, a clearly identifiable owner, and lessee to whom the owner transfers the usufruct of the asset for an agreed period, at an agreed consideration. The consideration should be absolutely determined at inception for the duration of the contract. Ownership remains with the owner and only the right to use the asset is transferred to the lessee. Anything which is consumed by use, therefore, cannot be leased. Costs relating to ownership should be borne by the owner while costs relating to use should be borne by the lessee. The lessee should compensate the owner for any costs as a result of negligence, however, the owner retains full risk and is liable for all losses beyond the control of the lessee. The lease period commences on the date the lessee takes possession of the asset. The lease terminates at the agreed date or if the leased asset has totally lost the function for which it was leased. Ownership of the lease remains with the owner after the lease has been

terminated. If the parties wish to renew the lease or if the owner wishes to sell or give the asset to the lessee, it will form part of a new transaction (Taqī Uṣmānī, 1998).

When *ijarah* is the mode of financing and the lessee procures the asset to be leased, it should be understood that the procurement of the asset is independent of the *ijarah* transaction. The procurement is akin to a principle-agent transaction where the lessee acts on behalf of the bank as its agent. Cost associated with transfer (e.g. customs and transport) should be borne by the principle. *Ijarah* conditions are not applicable during procurement and lease payments are not due until the asset has been delivered and the *ijarah* contract agreed (Taqī Uṣmānī, 1998).

2.2.5 Diminishing *musharaka* transactions

Musharaka is a form of partnership which literally means 'sharing'. In a business context, it means a joint arrangement in which all partners share in the profits and losses of the joint arrangement. Profits may be shared on an agreed ratio but losses must be shared in direct proportion to each partner's holding in the joint arrangement. The normal principle of *musharaka* is that each partner has a right to take part in the management of the joint arrangement, however, the partners may agree on a condition that the management will be carried out by one of them. In that case, the silent partner cannot be entitled to a profit ratio greater than the value of his investment in the joint arrangement. *Musharaka* agreements may be terminated through the purchase of shares of one partner from another (Taqī Uṣmānī, 1998).

Diminishing *musharaka* is a form of *musharaka* developed recently in which two (or more) partners enter into a joint arrangement over an asset with one party having exclusive use of the asset. The partner using the asset then pays rental to the other partner (or partners) for the use of their share of the asset. A key feature of diminishing *musharaka* is that the partner using the asset undertakes to repurchase (systematically) the shares from the other partner (or partners) over a period of time. A diminishing *musharaka* agreement should be effected over four stages. Firstly, joint ownership of the asset comes about when both partners (assuming only two partners to the agreement) contribute to the acquisition of the asset. Secondly, one partner leases his share of the asset to the other partner who occupies or utilises the whole asset. Thirdly, the partner occupying or using the asset undertakes to purchase (systematically) the other partner's share in the asset in equal instalments over time. The third stage cannot be a condition of the original *musharaka* (stage one) as it will cause

the *musharaka* contract to be void: it should rather be structured as a separate promise. The original *musharaka* agreement and the systematic repurchase of the other partner's share by the occupying partner may not be contained in the same agreement. The original *musharaka* agreement and the agreement to lease may be contained in the same agreement. Fourthly, at each date of repurchase, the repurchase price should be offered and accepted. It is preferable that the repurchase price be based on the market value of the asset at the repurchase date, however, purchase prices may be pre-agreed (Taqī Uṣmānī, 1998).

2.3. Common problems encountered when applying IFRS to Islamic banking

In Section 2.1, a quotation from Ariff (1988) emphasised that Islamic banking should be multi-faceted and should include ethical, moral and social factors in its operations. Similarly, the accounting for Islamic banking transactions should take into account more than just the commercial substance of the transaction. The *ED2015/3 Conceptual Framework* of IFRS identifies faithful representation as a fundamental qualitative characteristic of financial reporting. Faithful representation implies integrity and honesty which broadly correspond with ethical and moral factors that should be considered in accounting for Islamic banking. The *ED2015/3 Conceptual Framework* further clarifies that financial reporting should be prepared with the users of financial statements in mind. In some cases, users of financial statements are the broader public but, in most cases, 'users' have been classified as the current and future investors, lenders and other creditors. This implies that IFRS considers social factors in a limited context.

Conventional banking has traditionally been separated into commercial/ retail banking and investment banking (Karim, 2001). Commercial/retail banking, simplified, comprises receiving deposits, making payment on customer instructions and providing a variety of financing, while investment banking comprises of investment management and corporate finance activities of the bank (Karim, 2001). Islamic banking combines commercial/retail banking and investment banking, as interest charged by conventional banks in commercial/retail transactions is prohibited.

The *ED2015/3 Conceptual Framework* encourages financial statement preparers to look through legal form to the underlying economic substance of a transaction when determining the accounting for a transaction. However, *Shariah* principles require the legal form of a transaction to reflect (faithfully) its economic substance, as explained by the Institute of Chartered Accountants in Pakistan

‘In Islamic finance, [one] cannot have a transaction whose substance is different from its legal form’

Establishing accounting practices for Islamic banks which are true to both *Shariah* principles and IFRS can be a complicated process. The accounting for Islamic banking transactions would need to consider the operational side of a transaction and the related accounting (IASB, 2013). The narrative below identifies complexities in accounting for deposit transactions under *qard* and *mudaraba* principles and accounting for financing transactions under *ijarah*, *murabaha* and diminishing *musharaka* principles from the Islamic banks’ perspective.

2.3.1 Issues in accounting for *mudaraba* transactions

Mudaraba transactions are a form of PLS transaction by which depositors ‘invest’ in the business of the Islamic bank and earn returns on that investment on a pre-agreed basis. The structure of *mudaraba* contracts poses a number of problems for accounting under IFRS (Maurer, 2002).

IFRS is based on the principle of the entity theory where the activities of shareholders are separated from those of the company and shareholders are not responsible for the liabilities of the company (Maurer, 2002). *Mudaraba* contracts blur the boundaries between shareholders and customers as they contain the rights of both. Depositors under *mudaraba* agreements have an ethical and moral obligation to ensure that their funds are being used in a manner that complies with *Shariah*, implying a close business relationship between the Islamic bank and the depositor (Maurer, 2002). The Islamic bank sees the *mudaraba* depositor as a customer to whom a service should be provided, strengthening this business relationship (Maurer, 2002). At the same time, the depositor faces the real risk of incurring losses should the bank’s activities decline, creating a shareholder relationship (Maurer, 2002). AAOIFI attempts to bridge this gap by requiring unrestricted *mudaraba* deposits to be recorded as a separate class of equity in AAOIFI financial statements.

Decision making criteria in IFRS are determined by the usefulness of information to the users of financial statements and these users have been narrowed down to ‘current and future investors, lenders and other creditors’ (ED2015/3 *Conceptual Framework*, 2015). *Mudaraba* depositors, while actually providing capital, may not be seen as such when viewed with the same lens as conventional banking depositors (Maurer, 2002). This questions whether

management specifically consider *mudaraba* depositors in their decision-making with the considerations given to other users of financial statements (Maurer, 2002).

2.3.2 Issues in accounting for *murabaha* transactions

Murabaha is cost plus mode of the non-PLS modes of financing employed by South African Islamic banks. The trading origin (buying and selling at a mark-up) of *murabaha* contracts implies that it is squarely within the ambit of *IFRS 15, Revenue from Contracts with Customers* with the resulting trade receivable from deferred payment recognised and measured under *IFRS 9, Financial Instruments*. However, paragraph 6 of *IFRS 15, Revenue from Contracts with Customers* states that:

‘A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.’

It is then argued whether buying and selling assets at a mark-up are really the ordinary activities of an Islamic bank. There are arguments in favour of buying and selling assets being the ordinary activities of an Islamic bank if that is the mode under which most of the financing is facilitated. However, there is an equally strong argument on the bank’s objective being the provision of finance and not the buying and selling of assets. This argument is strengthened by the fact that the mark-up on most *murabaha* transactions is not based on the market value of the asset being sold but rather on the base lending rate of the Islamic bank. Furthermore, if *murabaha* contracts fell within the ambit of *IFRS 15, Revenue from Contracts with Customers*, it would mean accounting for the mark-up as a significant financing component due to the deferred payment terms in accordance with paragraph 48 of *IFRS 15, Revenue from Contracts with Customers*. To some, it is untenable that a transaction specifically designed to avoid charging interest would result in reporting interest income under IFRS.

The alternate accounting treatment suggested by the IASB Consultative Group on *Shariah-compliant Instruments and Transactions* in their meeting on 5 September 2014 is directly recognising the transaction as a financial asset at amortised cost under *IFRS 9, Financial Instruments*.

2.3.3 Issues in accounting for *ijarah* transactions

Ijarah transactions are a non-PLS mode of financing employed by South African Islamic banks. *Ijarah* is only valid if the Islamic bank owns the asset and the asset cannot be consumed over the period of the lease. Within Islamic jurisprudence, there is no concept of a finance lease; all leases are operating by nature (Taqī Uṣmānī, 1998). *Ijarah* transactions which are over a substantial period of the useful life of the asset or which include the transfer of the asset to the customer at the end of the lease term, by default, meet the criteria for finance leases and will be recorded as such under IFRS.

As *ijarah* confers the usufruct of an asset to the lessee, the right of use of an asset is a resource of the lessee which it controls (through exclusive use) from which economic benefits can be derived and the lessee should, therefore, also recognise an asset. It must be noted that *IFRS 16, Leases* shares this view.

2.3.4 Issues in accounting for diminishing *musharaka* transactions

Diminishing *musharaka* financing is financing used by Islamic banks in South Africa where the customer, through a partnership agreement with the Islamic bank purchases an asset and, thereafter, the customer undertakes (systematically) to buy back the Islamic bank's share of the partnership (Taqī Uṣmānī, 1998).

Karim (2001) contemplated whether diminishing *musharaka* transactions should be accounted for using *IFRS 11, Joint Arrangements* because of the contractual partnerships. However, given the majority holding of the bank at inception and the bank's ability to control the use of the asset, as well as the systematic contractual cash flows of a typical diminishing *musharaka* agreement, this accounting treatment was rejected.

The alternative, taking into account the systematic contractual cash flows was to consider accounting for diminishing *musharaka* contracts as financial asset at amortised costs under *IFRS 9, Financial Instruments*. This created debate on whether the amortised cost criteria in *IFRS 9, Financial Instruments* would be met. The IASB Consultative Group on *Shariah-compliant Instruments and Transactions* in their meeting on 5 September 2014 contemplated whether diminishing *musharaka* contracts would meet the business model tests and the characteristics-of-the-contract tests required by *IFRS 9, Financial Instruments* before a financial asset can be recognised at amortised cost.

3. Research methodology

This section identifies and explains the research method. In section 3.1, the difference between mainstream positivist research and the less-used interpretive research is discussed. Section 3.2 explains the reason interviews were used to conduct this research. The merits and demerits of interviews as a research method are also discussed. Section 3.3 discusses the sample selection criteria of this research. Sections 3.4 and 3.5 discuss data collection and data analysis respectively. Section 3.6 discusses the limitations of this study.

3.1 Research paradigm

Research in the accounting sphere has largely been conducted using positivist research with objective empirical evidence supporting conclusions and generalisations (Maroun, 2012). As Maroun (2012) points out, accounting is far more complex than formal quantitative research allows and may benefit from ‘alternative’ or interpretive research. Interpretive research places human practice at the centre of understanding (Prasad, 2005). Interpretive research focuses on analytically disclosing those human practices, while showing how those practices configure to generate observable outcomes (Prasad, 2005). Positivist research is objective and uses scientific methods. Subjectivity does not detract from validity and reliability of the research, it is achieved from full disclosure by the researcher on the perspective of the study, detailed documentation of findings and rigorous data collection and analysis (Cresswell & Clark, 2007; Maroun, 2012).

Due to the minimal research conducted on Islamic banking in South Africa, a qualitative approach of detailed interviews was used. Interpretive research relies on methods combining observation and interviews which foster conversation and reflection (Ryan *et al.*, 2002; Cresswell & Clark, 2007; O’Dwyer *et al.*, 2011; Maroun, 2012).

3.2 Method

Detailed interviews are the best method for obtaining facts and gaining insights into understanding the reasons behind certain actions (Rowley, 2012). Interviews are especially useful for researching new or less-explored areas (Cresswell, 2003). Questionnaires were considered but discarded due to the varied and detailed nature of information sought. While questionnaires allow information to be collected from a large number of people, the purpose of this research is to obtain detailed information from few key people within the Islamic banking industry in South Africa. Questionnaires facilitate generalisations by virtue of the volume of information obtained, however, this research is focused on the breadth and depth of information rather than quantum, which is better obtained through interviews. Interviews further have the potential to provide the researcher with angles not contemplated in this research (Rowley, 2012). Lastly, as key people in the Islamic banking industry in South Africa were chosen, it was likely that these busy people would be more willing to share their insights and opinions during interviews than to take the time to fill out questionnaires (Rowley 2012).

Prior research on Islamic banking largely used publically available information (Kahf, 1999; Karim 2001; Zaher & Kabir Hassan, 2001; Dusuki & Abozaid, 2007, Kamla, 2009; Rethel, 2011) or questionnaires (Dusuki & Abdullah, 2007; Bassens *et al.*, 2010; Beck *et al.*, 2013) to conduct research, resulting in research that is one step removed from what is happening in practice. Interviews allowed the researcher to walk through the execution of a transaction as would be conducted in day-to-day operations providing the insight and information to perform the research analysis. Interviews were, therefore, selected as the basis for acquiring data.

Shariah law, including its moral and societal aspects, the *ED2015/3 Conceptual Framework* and the basic understanding of Islamic banking transactions in South Africa as obtained from the relevant bank's websites were used to develop the interview agenda. The interview agenda was subject to peer review by supervisors, fellow researchers at the University of Witwatersrand and was piloted by two partners (familiar with Islamic banking) at Big Four audit firms, as recommended by Llewelyn (2003), O'Dwyer *et al.*, (2011), Maroun (2012) and Rowley (2012).

Subjectivity and the researcher's involvement in the collection of data are some of the characteristics of interviews (Cresswell, 2003). These characteristics are unique to qualitative research but do not detract from the validity or reliability of the method (Cresswell & Clark, 2007). Researcher bias could be a factor in one of the processes of setting up, holding,

transcribing or analysing interviews (Cresswell, 2003; Rowley, 2012) and may threaten reliability. In this study, the researcher ensured that only experienced interviewees were chosen (Section 3.2.1), that the interview agenda was appropriately designed and tested and that a thorough analysis of the data was performed, resulting in reasonable assurance on the reliability and validity of findings (Cresswell, 2003; Rowley, 2012). Cresswell (2003) further recommends the disclosure of inherent delimitations (Section 1.4) and limitations (Section 3.5).

3.2.1 Sample

The sample of people to be interviewed was purposefully selected, taking into account the bias this brought to the research. The researcher was mindful of choosing interviewees who would provide the most useful and in-depth information. Once the selection was made, people in similar positions in all South African Islamic banks or conventional banks offering Islamic banking products were included in the sample. The result is that key people in the position to influence Islamic banking in South Africa were engaged until saturation was achieved (Rowley, 2012). All interviews were semi-structured to ensure focus on the research question and to examine (thoroughly) the subject (Holland, 2005; Leedy & Ormrod, 2005; Rowley, 2012). As recommended by Rowley (2012), a total of 9 interviews was conducted, ranging from 40 minutes to 90 minutes each.

3.2.2 Ethical considerations

Interviewees were granted personal anonymity to guarantee their full co-operation (O'Dwyer *et al.*, 2011). However, participants were advised about and did not object to the Islamic bank or conventional bank offering Islamic banking products being specifically mentioned in the research report. Participants were interviewed in familiar settings so that they would be at ease (Rowley, 2012). Interviewees were free to stop the interview at any time which was designed to contribute to their willingness to participate and be forthcoming (Cresswell & Clark, 2007). During the review of the interview agenda, peers, colleagues and people involved in the pilot study were requested to provide feedback on whether any of the questions posed an ethical dilemma for interviewees. This research proposal was further subject to approval from the Research Ethics Committee of the University of the Witwatersrand.

3.3 Data collection

Data collection and analysis followed a case study approach with the researcher continuously analysing actual South African Islamic banking transactions with reference to its ideal *Shariah*-compliant counterpart. At the same time, the accounting for the real transaction was compared to its ideal IFRS counterpart. Certain interviewees were expected to have full knowledge of both *Shariah* law and IFRS while other interviewees were expected to have full knowledge of one but only a basic understanding of the other. As the purpose of the research is to understand the rationale behind deviations from *Shariah* and/or IFRS, if any, participants were asked indirect questions without the researcher leading or directing the interviewee's responses.

The pilot interviews with two partners from different Big Four audit firms who specialise in Islamic banking were informal, exploratory discussions where the researcher expressed an interest in learning more about Islamic banking in South Africa and made specific reference to the research questions. The partners provided valuable insight which assisted in refining the interview agenda and providing contact details for the other interviewees. This facilitated formal interviews with senior members of all of the banks that offer Islamic banking products in South Africa. Participants from each of Al Baraka Bank, HBZ Bank, FNB and ABSA were interviewed.

Interviewees were provided with an overview of the research and it was emphasised that all interviews are confidential and that each participant's confidentiality will be guaranteed. Interviewees did not express concerns about the nature of the study and accommodated the interview time into their busy schedules. It seemed as if the willingness of the interviewees to participate stemmed from a desire to discuss (openly) and to debate with the researcher key issues specific to the South African Islamic banking market, and to help them understand perceptions about Islamic banking in South Africa. Interviewees were offered a copy of the final research report on request (O'Dwyer *et al.*, 2011).

Interviews were conducted in person with follow-up questions posed over e-mail or telephonically, if necessary (Cresswell & Clark, 2007). The interview agenda was made available to interviewees prior to the interview to eliminate any uncertainty or misgivings interviewees may have had. This is also meant to ensure that responses are accurate and complete. As questions were practical in nature and open-ended in delivery, the risk of

rehearsed responses was considered low (Holland, 2005; O'Dwyer *et al.*, 2011) increasing the reliability and validity of the study.

Interviews commenced with the researcher asking permission from the interviewee to record the interview. Recordings were used to transcribe the information obtained and assist the researcher in focusing on the interviewee without having to make detailed notes. Recordings can be reviewed several times if needed and allow for tone to be studied and processed (Holland, 2005). Transcripts were available to participants if requested to ensure that accurate transcripts were used in the research. Rowley (2012) recommends the above to strengthen the reliability of the study and to improve the quality of findings. Interviewees were allowed to discontinue recordings or withdraw from the study at any stage. The interviews were recorded on a Philips 'Voice Trace' MP3 Dictaphone and transcribed using Transcribe Wreally Online software. All information obtained was kept physically and logically secure.

The interview then proceeded with the researcher establishing a rapport with the interviewee. Candour was encouraged through discussion of the interviewee's role and influence in the Islamic banking community. The interviewees, with the help of the agenda, were then guided through the required themes. While interview questions were posed in a different order during each interview, the same themes were addressed in each interview (Alvesson, 2003; Rowley, 2012).

The duration of interviews ranged from 40 minutes to 90 minutes and allowed for the themes to be explored in sufficient detail (O'Dwyer *et al.*, 2011). Interviews were held between June 2015 and November 2015. 6 of the 9 interviews were held face-to-face at the offices of the respondents in Johannesburg and Durban. 3 of the 9 interviews were held over the telephone with respondents who were based in Durban. Telephone interviews minimise interviewer bias but at the same time minimise the rapport and the richness as experienced in face-to-face interviews (Rowley, 2012). Research by Aziz and Kenford (2004) and Rohde, Lewinsohn and Seeley (2014) found that telephone interviews were a reliable method of interviewing and that the economic and logistical advantages outweighed the marginal differences noted when compared to face-to-face interviews.

3.4 Data analysis

Data analysis commenced with a detailed review of prior literature on the *Shariah* relevance and the compliance of current Islamic banking practices globally. The aim was not to summarise every argument for or against current Islamic banking but rather to identify the current major advantages and pitfalls. The reviewed literature was organised using a content analysis. Literature relating to the *Shariah* element of Islamic banking was analysed firstly to identify the core Islamic principles which should underpin any activity, secondly, to identify the specific Islamic principles that apply to trade and should be applied to Islamic banking and, thirdly, to collate prior studies that advocate or criticise Islamic banking. Literature relating to the IFRS element of Islamic banking was analysed firstly, to give a broad overview of the principles of IFRS's; secondly, to describe the specific IFRS's which can be used to account for Islamic banking transactions and, thirdly, to formulate the ideal accounting for Islamic banking transactions. The above analysis was used to develop the literature review (Section 2) and to develop the interview agenda. The literature review, in turn, formed the basis for analysing the interviews and presenting the results (Section 4).

Data obtained from transcripts was analysed several times through data reduction, data display and data verification (O'Dwyer *et al.*, 2011). Themes were naturally identified as the four different types of Islamic banking transactions offered in South Africa. Data was initially analysed on a holistic level by analysing the business model of each bank offering Islamic banking transactions. Next, the *Shariah* requirements of these transactions formed the categories by which interview data was organised (Rowley, 2012). Thereafter, the IFRS accounting for each transaction was superimposed over the *Shariah* requirements analysis (Rowley, 2012). For each transcript, a summary table was prepared, listing the themes and explaining the nature of each theme. As part of the analysis, the summary and transcripts were colour-coded for easy reference.

An informal coding scheme was developed to analyse the subtler themes in the interviews. Specific attention was paid to contradictions within interviews and amongst interviewees (Patton, 2002). Core sub-themes related to each bank's contractual structure in terms of *Shariah* were explored and grouped under various categories. Subsequent readings of the transcripts added to these themes and this process was repeated until a sense of saturation of the issues was experienced by the researcher (Holland, 2005; Leedy & Ormrod, 2005; O'Dwyer *et al.*, 2011).

3.5 Limitations

While safeguards have been employed to ensure the reliability and validity of the research, there are still inherent limitations which should be noted:

- When conducting interviews, the researcher invariably will be involved in the data collection, making the research subjective, the results of which are not conducive to extrapolation, generalisation or reproduction (Holland, 2005; Creswell, 2009). However, this is not the aim of this study.
- There is a risk of interviewees providing rehearsed or socially acceptable answers confined to loyalty to the organisation (Alvesson, 2003). Even though this research guarantees anonymity and confidentiality, some level of risk remains.
- Interviewees, while chosen for their expertise and level of knowledge, may provide highly technical insight which may be difficult to interpret. Detailed technicalities were, therefore, excluded from this research.
- The regulatory environment of banks in South Africa has not been explored, however, the regulatory environment was brought to the readers' attention to help illustrate certain themes.
- This research uses only *Shariah* law and IFRS to analyse transactions. *Fatwas* (rulings) issued by the *Shariah* Boards of South African Islamic banks have not been included in this study and may be an area of future research.
- This research is interpretive only and examines how Islamic banks account for the transactions included in the study.

3.6 Method summary

In summary, the aim of this research is not to assess *Shariah*-compliance or to criticise the IFRS treatment of Islamic banking transactions in South Africa. Rather, a qualitative research method was used to gain perspectives on both the *Shariah* and IFRS elements of Islamic banking in South Africa. Semi-structured interviews allowed respondents to illustrate their perspectives in a complete way. The exploratory tone of the research and the seemingly unrehearsed answers of participants increase the validity the interviews. The detailed coding and interpretation of data based on prior literature formed the results presented (Section 4). Results were confirmed and reinforced by follow-up sessions where necessary. While interviewees were carefully selected and perhaps prone to response bias, it ensured that only knowledgeable people were interviewed, adding to the quality of the research.

4. Findings

This section details the findings from interviews. The interview agenda has been provided in Appendix I. Section 4.1 looks at the findings overall across all of the banks. Sections 4.2 to 4.6 discuss in detail the findings relating to each type of Islamic banking transaction offered in South Africa as tabulated in Table 1 (Section 1.1).

Section 5 concludes the thesis by summarising the results and matching these to the research question posed in Section 1.3.

4.1. Overall findings

Respondents from each of the banks offering Islamic banking in South Africa confirmed that the reporting framework used to account for Islamic banking transactions is IFRS. Al Baraka Bank, additionally, reports under AAOIFI to its holding company in Bahrain (Bahrain recognises AAOIFI as a financial reporting framework, unlike South Africa) and, therefore, prepares an AAOIFI Statement of Financial Position and Statement of Profit or Loss at the end of its financial statements which highlights the IFRS-AAOIFI differences. ABSA Islamic banking and FNB Islamic banking financial statements are not separately available as these Islamic windows are merely branches of bigger conventional banks and are too small in size to be separately disclosed in the ABSA Limited and First Rand Bank Limited financial statements respectively. HBZ Bank financial statements are separately available but the conventional and Islamic banking accounting is not disclosed as separate operations. Except for Al Baraka Bank, Islamic banking financial statements prepared under IFRS and related disclosures are not separately available.

The findings below are used to propose the IFRS accounting for Islamic banking transactions using *ED2015/3 Conceptual Framework*. This proposed accounting treatment is not an assessment of each Islamic bank's compliance with IFRS but rather a proposal on the alternatives available when applying the *ED2015/3 Conceptual Framework*.

Each of the banks which offer Islamic banking in South Africa offer both deposits and financing products. All of the banks included in the study offer the equivalent of a conventional cheque or current account on a *qard* basis on which no returns are paid to the customer. All of the banks also offer customers the option of several types of savings accounts on which returns

are earned on a pre-agreed basis under the PLS-based *mudaraba* (equity investment) principle. On the financing side, all of the banks offer property finance under PLS-based diminishing *musharaka* (partnership) although this is executed differently at each of the banks. HBZ Bank also offers motor vehicles and asset finance under diminishing *musharaka* (partnership). The non-PLS mode of financing, *murabaha* (cost plus) is used by Al Baraka Bank to offer motor vehicle, asset and property finance with a maximum term of seven years. *Murabaha* (cost plus) transactions are used by HBZ Bank only for trade finance (e.g. inventory) with a maximum term of 90 days. The other non-PLS modes of financing, *ijarah* (leasing), is used by ABSA and FNB Islamic banking windows for motor vehicle and asset finance. A summary of the transactions offered by each bank including the transaction modes (i.e. PLS or non-PLS) is tabulated in Table 2.

Table 2 - Types of Islamic banking transactions available in South Africa per bank

	Al Baraka Bank	ABSA	FNB	HBZ Bank
Qard	Deposits – no returns	Deposits – no returns	Deposits – no returns	Deposits – no returns
Mudaraba	Deposits – pre-agreed returns	Deposits – pre-agreed returns	Deposits – pre-agreed returns	Deposits – pre-agreed returns
Murabaha	Financing – trade financing (e.g. inventory), motor vehicles, equipment, property (max 7 years)			Financing – trade financing only (e.g. inventory)
Ijarah		Financing – motor vehicle and asset finance	Financing – motor vehicle and asset finance	
Diminishing musharaka	Financing – property	Financing – commercial property only	Financing – Property	Financing – property, motor vehicles, equipment

Islamic banking has come under criticism globally for merely putting an Islamic veneer on conventional products (Khan, 2010) and that sentiment continues to exist, even amongst those operating Islamic banks:

‘So the way we operate, [and the other banks] are similar and I think that it’s a problem across Islamic banks across the world in that at the moment we are just trying to replicate conventional products, we are almost playing catch-up.’ (R3)

‘Islamic banking in South Africa is relatively new so people don’t understand the concepts, the closer it [Islamic banking] is aligned to conventional banking, the more you get your market to take your product.’ (R6)

‘The substance in essence is the same as conventional banking and is made *Shariah*-compliant in terms of the contract’ (R8)

The following sections assess the economic substance of each of the transactions offered by Islamic banks in South Africa and use this to propose the IFRS accounting treatment for these transactions. This proposed accounting treatment is then compared to the actual accounting treatment for Islamic banking transactions in South Africa.

4.2. Findings on *qard* transactions

In Islamic principles, *qard* are loans given to another as a help, charity or advance repayable on demand or at a specific time. In a South African Islamic banking context, Islamic banks borrow money from depositors as advances to run the Islamic banking business (R5). Respondents explained that operationally *qard* accounts are structured the same as conventional current or cheque accounts on which no returns are paid.

‘...[On] the *qard* account we cannot give any profit on that account because the *qard* is there, we took the loan from the customers. If we took the loan from the customer and we pay anything on that *qard*, [it] is equal to interest. But we cannot open [a current account] on [an] *amaanah* basis also. The condition of *amaanah* [is] if I give this thing to you, you have to return the same thing, so if you gave [the bank a] R100 [note] with a specific serial number, when you ask for it [back], I have to return to you the [exact] same note, that is not possible. That’s the reason we open the current account [on the *qard* basis] and that’s the reason we’re not paying any profit.’ (R7)

Islamic banks use *qard* funds to generate returns yet do not pay any of these returns to depositors as that would be interest and in contravention of *Shariah*. However, transaction fees are still levied on *qard* accounts, similar to conventional cheque and current accounts.

‘So one element is the element of bank charges and the services we provide, so we pride ourselves on the fact that we provide a service that is compatible and on par with what the conventional bank offers. Because a lot of our Muslim customers are already aware of the transactional benefits of the normal [conventional] account. So even for us, because we carry the banner of Islamic banking, we make sure we’re on par with that. So, in order to not get into arbitrage on pricing on bank charges, our pricing is exactly the same as its conventional counterparts. Like the bank’s charges you would pay on a cheque account would be the same as an Islamic transaction account.’ (R5)

Islamic banks have encountered complications when running promotions on the cheque accounts as any benefit derived by the depositor from having loaned the money to the bank may be construed as interest.

‘...so, for example, on their cheque accounts we are giving a competition where you could win tickets to something. So the *Shariah* questions were, can you [the depositor] derive benefit and will it then be interest? So you'll have those kind of issues where we're constantly going back to the *Shariah* Board to say we want to run this campaign or this promotion, can it work or can't it work and how do we change it? What the *Shariah* Board said, based on the transaction, if you [can] get the customer to use his ATM three times a month or whatever, based on that you can give a prize but you cannot give a prize for just having a cheque account. So the *Shariah* issues are much wider than just that contractual issue because if it's a loan from the *Shariah* perspectives, then we have to view everything as a loan and some of those requirements are quite strict on a loan.’

The accounting for *qard* transactions should reflect the economics of the transaction. Islamic banks borrow from depositors and use the borrowed money to earn. Using *ED2015/3 Conceptual Framework*, the borrowing of money by the Islamic bank from the depositor creates an obligation for the Islamic bank to return those monies to depositors. The terms of a *qard* transaction are that the Islamic banks are allowed to use the money to earn profits, provided that *qard* deposits remain available for depositors to withdraw at any time. Islamic banks are not obliged to share any of the returns earned by the Islamic bank in the period the *qard* deposits were in the control of the Islamic bank. These terms identify the extent of the Islamic bank's obligation, to return capital *qard* deposits only, and also establish the Islamic bank's unavoidable obligation (by the *qard* agreement) to return *qard* deposits if demanded. These features meet the definition of a liability in *ED2015/3 Conceptual Framework*. The *ED2015/3 Conceptual Framework* encourages the consideration of relevance, faithful representation and the enhancement of qualitative characteristics when determining the measurement basis of a liability. In the case of *qard* transactions, due to the depositors requiring funds to be available on demand, historic cost would be the most likely measurement basis.

All of the Islamic banks included in the study account for *qard* transactions as financial liabilities at fair value through profit or loss under *IFRS 9, Financial Instruments*. The *qard* contract with the depositor makes the bank a party to the contract and creates the legal

obligation to pay back the deposit at any time in cash. All of the Islamic banks included in the study measure *qard* transactions in terms of paragraph 5.1.1 of *IFRS 9, Financial Instruments*, which states that financial liabilities are initially measured at fair value and may be subsequently measured at fair value if so designated. Further guidance is provided in Paragraph B5.1.2 of *IFRS 9, Financial Instruments* regards the transaction price of a financial liability as the best initial measurement of its fair value. A *qard* contract, by definition, has no interest and is payable on demand to the depositor at any time, thereby eliminating the option of recognising the financial liability at amortised cost. Islamic banks use the fair value measurement principles for subsequent measurement as contained in paragraph 47 of *IFRS 13, Fair Value Measurement* that requires the financial liability to be discounted to the first date the amount is required to be repaid. The Islamic banks concluded the effect of discounting would be nil as amounts must be available for repayment immediately.

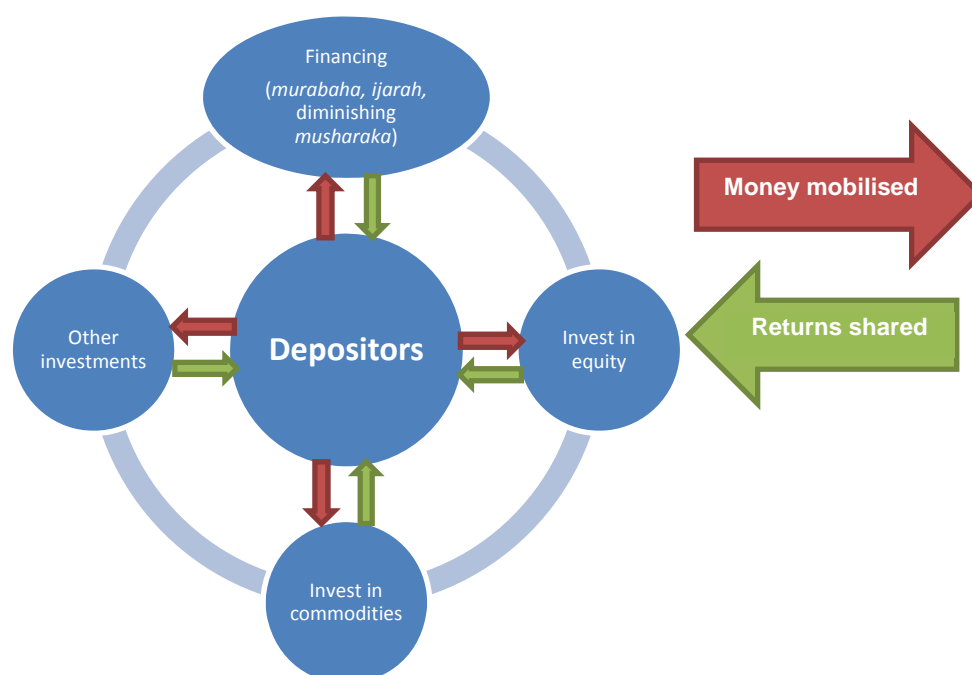
‘The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.’ [para 47, IFRS 13]

The proposed accounting using *ED2015/3 Conceptual Framework* and the way Islamic banks account for *qard* transactions are similar. In Islam, a fundamental characteristic of a *qard* transaction is the lender extending benevolence to the borrower. It is interesting to note that Islamic banks are the recipients of the benevolence even though Islamic economics would dictate that Islamic banks extend the benevolence in the interest of financial upliftment and societal welfare.

4.3. Findings on *mudaraba* transactions

Respondents confirmed that all deposit products on which returns are paid are offered under the *Shariah* concept of *mudaraba* (partnership). Depositors’ money is mobilised in a variety of ways in order to earn returns. Respondents from each of the Islamic banks interviewed declared a mismatch in that the value of money received from depositors was significantly more than money loaned to borrowers. Excess cash available from depositors is invested by the Islamic bank in equity or commodities or other short-term investments (R1, R3, R5, R7). The returns from these investments are pooled and shared with depositors on the pre-agreed profit ratio.

Diagram 1 – Flow of depositors' money in an Islamic bank in South Africa



The profit share percentage differed across each of the banks ranging from a 40:60 ratio, with the bank taking 40% and the depositors receiving 60% of profits, to an 80:20 ratio, where the bank keeps 80% of the profits and distributes to customers 20%. The difference in profit ratios is attributed to the method of distributing profits which is on a gross basis before deducting the bank's operating expenses or on a net basis after deduction of the bank's operating expenses (R1, R3, R5, R7).

Each bank offered several deposit products on which returns could be earned. Al Baraka Bank, ABSA and FNB each offer term deposits which are lump sum deposits retained by a bank for a specific amount of time. Each of these banks offers a sliding rate of returns with the two-year/five-year term earning the highest profit share ratio and the thirty days' term earning the least profit share ratio. Returns are paid at the end of the deposit term except for FNB which pays the returns monthly or allows the depositor to reinvest the monthly returns to earn compounded returns. Al Baraka Bank and ABSA further offer term deposit where the customer adds to the deposit monthly and returns are paid in a similar manner to lump sum term deposits.

ABSA and HBZ Bank further offer a transactional savings account which has the same features as a conventional cheque or current account but earns investment returns. Investment returns on these accounts are calculated on the daily average balance and paid

annually and twice annually by ABSA and HBZ Bank respectively. FNB offers a savings pocket on its current account which allows customers to transfer money from a *qard* account which pays no returns into the savings pocket which does. Returns are calculated on a daily average balance and paid monthly to the depositor. ABSA and FNB also offer a youth account to under 18's and the profit on this works the same as the transactional savings or savings pocket accounts. A summary of these savings transactions is tabulated in Table 3.

Table 3 - Types of deposit products offered under *mudaraba*

	Al Baraka Bank	ABSA	FNB	HBZ Bank
Term deposits (lump sum deposit)	30 days - 2 years (profit paid at the end of deposit term)	30 days - 5 years (profit paid at the end of deposit term)	30 days - 5 years (profit paid monthly)	
Term deposit (monthly deposit)	Specified term (profit paid at the end of term)	Specified term (profit paid at the end of each year on 25 Jan)		
Transactional savings		No term (profit paid at the end of each year on 25 Jan on daily average balance)	Savings pocket (profit paid monthly on daily average balance)	No term (profit calculated monthly on daily average balance but paid twice annually)
Youth savings account		No term (profit paid at the end of each year on 25 Jan on daily average balance)	No terms (profit paid monthly on daily average balance)	

One of the key features of a *mudaraba* profit sharing arrangement is that the depositor must be exposed to the risk of losing capital for the transaction to be valid in terms of *Shariah*. Respondents acknowledged that the risk exists but emphasised that the probability of the depositor losing his deposit is slim.

'...we have many [different] investments that we make from the [depositors] pool of money. So in one investment we can make a loss, altogether in aggregate we will still make a profit. We have only one general pool, all income [returns from financing] all deposits [money from depositors] come into that account and [from] that pool one customer's loss [a bad debt from financing] won't affect a single depositor because it is on a pool basis. To date we haven't [made any total losses]. If you place funds on *mudaraba* basis and you don't bear loss, then it's not *Shariah*-compliant. According to *Shariah*, if you're doing any partnership and you're not bearing any loss, then it's not a *Shariah*-compliant transaction. Loss should be borne according to capital ratio. Profit you can share on whatever agreed terms.' (R7)

‘...we don’t want to put our customer’s funds at risk, because under *mudaraba* it’s a profit and loss sharing agreement. We try to minimise the loss by structuring the trades so that when we buy [equity or commodities], we already know we can sell it in the market or we’ve got a buyer and we close out.’ (R3)

In an Islamic bank, there's a risk to the depositor and shareholder. The deposit is not guaranteed, like any other institution also. In Islamic banking you obviously have a higher risk. So in theory you can lose a deposit. In practice, obviously, banks will put controls in place to try and restrict the losses but Islamic banking, yes, because there's no distinction between shareholders and depositors in an Islamic context, they're both putting money in to get a return. They must both share in the profits and they must share in the losses. [I'm asking if that actually happens.] In practice it doesn't happen but in theory it can happen. Remember the banks deposit-based earnings are highly diversified....’ (R1)

As *mudaraba* contracts are a form of partnership between the depositor and the Islamic bank, the Islamic bank and depositor share the profits on a pre-agreed basis but the depositor bears the full loss as the depositor is the sole provider of capital in this partnership. While the depositor participates and benefits from a partnership relating to specific assets of the Islamic bank, the depositor does not have voting rights or rights to residual interest in the Islamic bank as a whole (similar to those of ordinary shareholders) it is unlikely that *mudaraba* transactions represent an ownership interest in the Islamic bank. *Mudaraba* deposits are pooled and jointly invested in a diverse group of assets. These assets may only be a part of the Islamic bank’s activities but it needs to be considered whether these assets can be separated and accounted for as a joint investment (by the Islamic bank and *mudaraba* depositor) in specified assets. The Islamic bank, in its capacity as the partner providing the know-how, makes the decisions with regards to those assets and, therefore, controls those assets. This leaves the *mudaraba* depositors as non-controlling interests in the joint investment. This would entail all returns paid to *mudaraba* depositors (and any other transactions with *mudaraba* depositors) to be recognised through the Statement of Changes in Equity and not the Statement of Profit or Loss and Other Comprehensive Income as required by *ED2015/3 Conceptual Framework*. The global Islamic banking community has proposed a similar treatment: to account for *mudaraba* depositors as a separate element of ‘quasi-capital’ in the financial statements. This proposal of quasi-equity has not been catered for in *ED2015/3 Conceptual Framework*. AAOIFI accounting standards require the presentation of unrestricted *mudaraba* transactions as a separate class of equity.

Islamic Banks in South Africa are bound by banking regulations which impose a fiduciary duty on banks to safeguard the capital of depositors. Even though Islamic banks do not guarantee the capital of *mudaraba* depositors, this capital is invested in assets and *mudaraba* depositors now have a claim over those assets and the returns generated by those assets (to be shared on a pre-agreed basis). This creates a constructive obligation for the Islamic bank in the form of the nature of its operations. Per *ED2015/3 Conceptual Framework*, *mudaraba* deposits may alternately be recognised as liabilities measured at cost or current value. Financial liabilities at cost would initially be measured at the transaction amount plus related costs of deposits and subsequently be adjusted for changes such as the accrual of interest, changes in the estimates of cash flows and withdrawals by depositors. As returns on investments are not earned uniformly, it is unlikely that cost would be an appropriate measure of *mudaraba* liabilities. Current value measurement can be either at fair value or at fulfilment value. Fair value is measured from the view of market participants and takes into account market factors such as estimates of future cash flows, variations in timing and amount, the time value of money, the price for bearing risk (including own credit risk) and other factors that market participants would take into account. Fulfilment value is the present value of all estimated cash flows to settle the liability.

Respondents from each of the banks interviewed (R2, R4, R6, R8) confirmed that *mudaraba* deposits were accounted for as financial liabilities at amortised cost under *IFRS 9, Financial Instruments*. Financial liabilities per *IFRS 9, Financial Instruments* are required to be classified as financial liabilities at amortised cost bar a few exceptions. The accounting treatment of Islamic banks for *mudaraba* transactions mirrors the accounting treatment of conventional deposits (R8) even though conventional deposits have fixed returns often over fixed periods while *mudaraba* deposit returns may vary depending on the performance of investment assets. The Islamic principle of *mudaraba* is seen to be an investment by the depositor in the business of the bank, which implies a long-term holding. However, there are no time limits specified in *Shariah* for the minimum period of a *mudaraba* transaction and it can be terminated at any time. Al Baraka Bank, ABSA, FNB and HBZ Bank note that due to this demand feature on *mudaraba* transactions with unspecified terms, the substance of the transaction more closely resembles conventional fixed deposits and the accounting of *mudaraba* mirrors this. Conversely, conventional banks that offer conventional deposits linked to investment performance split out the variable investment-linked returns and account for those as an embedded derivative at fair value: this accounting is, however, not mirrored by Islamic banks. The Islamic banking windows of ABSA, FNB and HBZ Bank emphasised that Islamic banking was too immaterial for the larger banks to consider an alternate accounting treatment.

‘The accounting for *mudaraba* transactions are ultimately the same [as for] conventional deposits. In terms of IFRS, the substance is the same and the profit pay-outs are also included as interest paid to depositors.’ (R8)

‘...if you had to choose a sample size from an auditing perspective, Islamic banking wouldn’t feature in the sample size [as it is so immaterial to the larger bank], so to create separate reporting [on the Holding Company financial statements] for Islamic is not feasible and not practical and [we are] not able to do that.’ (R5)

‘So if you look at AAIOFI, it’s going to say record it as separate equity, now imagine we put separate equity on the [Holding Company] balance sheet, for every depositor....’ (R6)

Regulation and banking practice in South Africa plays a role in determining the obligations of Islamic banks and the determination of whether *mudaraba* transactions are the equity or liabilities of Islamic banks. It is interesting to note that the accounting for *mudaraba* transactions by Islamic banks as a financial liability at amortised cost reflects the recognition of a liability measured at historical cost as proposed when analysing the accounting for *mudaraba* transactions using *ED2015/3 Conceptual Framework*. However, this accounting treatment does not reflect the *Shariah* structure of a partnership.

4.4. Findings on *murabaha* transactions

Only Al Baraka Bank and HBZ Bank use *murabaha* as a mode of financing. Al Baraka Bank uses this mode of financing to finance short-term assets such as inventory, as well as longer term assets such as equipment, motor vehicles and property. The maximum period over which *murabaha* financing is offered by Al Baraka Bank is seven years. HBZ Bank uses *murabaha* to finance inventory only with a maximum term of 90 days. *Murabaha* is a non-PLS mode of financing and is better suited to ordinary trade transactions than financing. Islamic banks in South Africa, however, deem the *murabaha* financing activities to be a form of trade.

‘We don’t do lending or financing. Islamic banking, there is no concept in Islam for lending or financing. We do **trading**. *Murabaha* is a **trading** transaction.’ (R7, emphasis added)

Operationally, *murabaha* transactions involve a complicated set of processes and agreements that are required to be fulfilled in a specific order for the transaction to be *Shariah*-compliant.

‘... [if the] client [customer/borrower] wants to buy goods, [the] goods are sourced [by the customer/borrower as the agent], and goods are [then] delivered to the customer. Before the client uses the goods, the supplier invoices the bank, and the bank pays the supplier. The customer cannot use those goods once he receives them [those goods], until the bank sells him those goods. The bank will then make the sale out to the customer. Say the goods cost R100 000, we sell it to you [the customer/borrower] for R120 000 and the amount is due in three months’ time. When the customer accepts the sale, the customer can use those goods and can dispose of them. This is a[n] [inventory] trade transaction.’ (R1)

A key feature of *murabaha* transactions is that both the buyer and seller know the original cost price of the product and agree on the mark-up. Engaging in *murabaha* trade would imply that the mark-up is based on the market price of the asset being resold. However, the mark-up is based on the rate of return the Islamic bank wishes to achieve for depositors.

‘... the transaction will be determined in terms of what the deposit rate is, [the desired deposit rate will determine] what the profit mark-up is.’ (R1)

Buying and selling of assets at a mark-up but allowing for repayment terms to extend over a long period blurs the boundaries between a financing and a trade transaction. In terms of *IFRS 15, Revenue from Contracts with Customers*, contracts should be assessed at initiation whether it contains a significant financing component. The financing component further creates regulatory complications in terms of the National Credit Act of 2005 (NCA) where section 125 (c) prescribes that, in the case of early settlement, the credit provider may not charge more than a maximum of three months’ future interest forfeited as a termination fee. In the case of *murabaha* transactions, it is not interest but rather the profit on the mark-up that is received over the course of the contract. In terms of *Shariah*, the profit remains the same, regardless of settlement date and may not be reduced or altered after it has been agreed upon by both parties. To illustrate using a simplified example, if the customer approaches the Islamic bank to finance the purchase of a motor vehicle for R200 000 and this purchase is facilitated through the process explained above, the bank adds a mark-up of R50 000 and resells the vehicle to the customer at R250 000 over a five-year term. If, at the end of the second year after having paid R100 000 in monthly instalments, the customer wishes to settle in full, the settlement value would be R150 000. In terms of the NCA, only the capital portion (R120 000) and a maximum of three months’ future ‘profits’ (R2 500) should be repaid as final settlement and the remaining ‘profit’ portion (R27 500), therefore, cannot be claimed by the Islamic bank. In order to retain *Shariah*-compliance and comply with the NCA, some of the Islamic banks

interviewed require full settlement of the agreed-upon price and thereafter offer an amount back to the customer. Alternatively, Islamic banks allow settlement of *murabaha* transactions at a discount.

‘In practice if someone [a customer] comes and said [that they wished to] settle early, we will give the person [customer] a discount, it’s not a contractual obligation it’s a prerogative of the bank. We give a discount if we wish. If you owe R125 000 after two years and you want to pay it off, we say ok you can pay R105 000, a discount on the marked-up price, at the prerogative of the bank.’ (R1)

Murabaha transactions are structured as two separate, distinct transactions: the first being the purchase and payment of an asset using the borrower as an agent to facilitate the purchase and the second being the sale of the same asset to the same borrower at a mark-up. In most cases, the Islamic bank would not enter into the first transaction without the second transaction being in place. Consequently, the two transactions should be seen together when determining the accounting for the transactions. Islamic banks have the option of accounting for the transactions chronologically as the purchase of an asset and payment of a supplier and, thereafter, the revenue from sale of the asset to a customer at a mark-up on deferred payment terms. Alternately, Islamic banks may ‘look through’ the chronological flow of the transactions to identify the economic substance of the transaction. As Islamic banks are not in the business of buying and selling assets but in the business of providing finance, the transactions when viewed together amount to a financing transaction. In substance, when the purchase and resale transactions occur, the Islamic bank advances cash and, in turn, receives a right to receive that cash back at a mark-up. The mark-up meets the definition of income in *ED2015/3 Conceptual Framework* as it is ‘an increase in assets or decrease in liabilities that result in increases in equity’. The right to receive cash, however, is a financial asset which may be measured at historical cost or current value in terms of *ED2015/3 Conceptual Framework*.

The trade nature of *murabaha* transactions prompted the question of whether the assets which are purchased by the Islamic bank on behalf of the customer are recorded as inventory before being sold at a mark-up. Neither Al Baraka Bank nor HBZ Bank bring the purchased assets onto the Statement of Financial Position as non-financial assets but rather account for them as unfinalised advances (financial assets) for the short period before these assets are sold to the customer. As a result, revenue is also not recognised on the sale of inventory.

‘So we wouldn’t enter into the transaction over year-end so that we have bought the [asset] and sold to the customer over year end. The buy and sell are quite close to each other and, therefore, we don’t apply cut-off issues to

this. Our documents talk to the structure but our accounting doesn't show an [asset] bought in and then sold. From a South African legislation perspective, we don't have legislation to cater for this, therefore, we wouldn't show this as inventory.' (R2)

Both Al Baraka Bank and HBZ Bank account for *murabaha* transactions as financial assets at amortised cost. That is to say those *murabaha* transactions are accounted for directly under *IFRS 9, Financial Instruments* and not as trade receivable financial assets via accounting for the sale of assets under *IFRS 15, Revenue from Contracts with Customers*. *Murabaha* transactions are analysed as having passed both the business model test of holding financial assets in order to collect contractual cash flows and the characteristics test of repayments on specified dates which are solely payments of interest (profit) and capital.

'Our principle recording mechanism is IFRS and that's why we record as you would a conventional loan using an amortisation table. We have a receivable that should be capital and profit in nature and that will be our amortised basis over the period of the loan. Obviously you earn more profit at the initial part of the loan and less profit at the latter part of the loan, that how our amortisation works, and that's in line with revenue recognition from an IFRS perspective.'

(R2)

Even though Islamic banks may structure *murabaha* transactions over short-terms (e.g. 90 days), justifying *murabaha* transactions as trade transactions, this does not alter the Islamic bank's business model as a provider of finance, rather than as an entity that engages in the buying and selling of assets. Islamic banks that allow trade repayment terms, however, do not account for the inventory and revenue on these transactions but continue to use the amortised cost basis of *IFRS 9, Financial Instruments*.

Both Al Baraka Bank and HBZ Bank recognise the profit on *murabaha* transactions, using the effective interest rate method. While deferment of profits to be recognised over the period of the contract is widely accepted by *Shariah* scholars, there is much debate on whether presentation of profits using the effective interest rate method is against the *Shariah*.

The various aspects of *murabaha* transactions are viewed in conjunction by Islamic banks when determining the accounting treatment. It is interesting to note that accounting for *murabaha* transactions by Islamic banks is similar to that proposed using *ED2015/3 Conceptual Framework* and 'looks through' its legal form to the substance of the transaction.

However, this accounting treatment does not reflect the *Shariah* structure of a cost-plus trade transaction.

4.5. Findings on *ijarah* transactions

ABSA and FNB Islamic banking windows utilise the *Shariah* principle of *ijarah*, or leasing, for the vehicle and asset financing, with ABSA utilising both a fixed and variable rental structure. *Ijarah* is a non-PLS mode of financing. In order for *ijarah* transactions to be *Shariah*-compliant, the contract must be executed as an operating lease. The differing definitions between *Shariah* and IFRS regarding operating leases results in complications for Islamic banks with some banks opting not to use this mode of financing.

‘Why are we [Islamic banking] not using *ijarah*? There are some complications. Accounting people do not accept *ijarah* as an operating lease because in *Shariah* there is no finance lease, only operating lease. But they’re saying, according to IAS 17 [IFRS 16, Leases], it’s a finance lease. I’m always saying that it’s an operating lease and not a finance lease.’ (R7)

‘And from *Shariah* perspective, the contract which we [Islamic banking] use is an operating lease. The thing is, when you take the qualification criteria of finance leases [in IFRS 16, Leases], if the asset is in my name or not in my name, they [IFRS 16, Leases] don’t care about that, they [IFRS 16, Leases] say that if you [the Islamic bank] have those three criteria⁶, it automatically qualifies as a finance lease in terms of IFRS. If we see Islamic contracts which are being used in South Africa, they are actually operating leases from [an] Islamic perspective but they [the lease contracts] define that you are going to use that asset for five years so that is more than 90% of the useful life of the asset, so then you [the contract] fall into the criteria of more than 75%, it automatically becomes a finance lease.’ (R4)

ABSA and FNB Islamic banking windows follow the same processes as *murabaha* in executing the transaction. To illustrate, if a customer wishes to purchase a motor vehicle, the customer approaches the Islamic bank with this request. The Islamic bank then appoints the customer as an agent. The customer now sources the car from a motor car dealer and once the car is chosen, the motor car dealer makes out an invoice to the Islamic bank, which means

⁶ The 3 criteria referred to are the examples given in IFRS 16, Leases of situations when a lease will be classified as a finance lease. The three criteria mentioned here are from paragraph 63 of IFRS 16, Leases, namely: (a) the lease transfers ownership of the asset to the lessee by the end of the lease term; (c) the lease term is for the major part of the economic life of the asset even if title is not transferred; (d) at the inception of the lease the present value of the minimum lease payments amounts to, at least, substantially all of the fair value of the leased asset.

that Islamic bank effectively takes ownership of the vehicle. Thereafter the transaction price is determined, and the vehicle is leased to the individual at a mark-up.

‘Once we approve your credit, you find the vehicle; the bank purchases the vehicle and leases it to you over a specified period of time.’ (R6)

‘[And you add a profit element to the cost before you lease it?] The *murabaha* is the underlying structure for most Islamic transactions; it’s more the overlay in term of all the other obligations that come through with all these other structures [i.e. *ijarah*].’ (R5)

At the end of the lease term, the car is transferred to the customer for no consideration or given as a gift to the customer.

‘... when he [the customer] makes his final payment in the lease, he’ll get the final documentation where ownership is transferred.’ (R5)

The mark-up added to cost of the asset before it is leased is not based on the market price of the asset leased but is rather determined using conventional banking benchmarks.

‘So we base it [the mark-up on *ijarah* transactions] on [the bank’s] lending rate. Essentially from our perspective, from [the larger bank’s] perspective, the pricing issue was that we want to standardise pricing, whether it is conventional or Islamic, you [the customer] are paying the same price. So the view from the *Shariah* scholars, whether we benchmark it through [the bank’s] rate or the prime rate does not make that [the transaction] not *Shariah*-compliant because the benchmarking is not the issue: it’s the actual interest that’s the issue.’ (R3)

The only difference between the structure of the *murabaha* and *ijarah* transactions is that in the *ijarah* transactions, the Islamic bank retains the title deeds of the asset even though ownership passes to the customer.

‘The reason you do that [retain title deeds but transfer ownership] in an operating lease type structure is that the customer is responsible for servicing the vehicle, if he [the customer] has an accident, he [the customer] can’t tell the bank it’s your [the bank’s] car, you [the bank] fix it.’ (R5)

The structure of *ijarah* transactions bypass the complication of compliance with the NCA as explained under *murabaha*. If the customer wishes to settle early, the rental for the period the car was used is charged and, if the customer wishes to purchase the vehicle, a price is then negotiated.

'[Would the customer pay less than the total value of lease payments?]' 'Yes, because then you [the customer] are basically purchasing out the rest of the period of the rental. So then we [the Islamic bank] would negotiate a price. When we [the Islamic bank] negotiate a price, we [the Islamic bank] can negotiate cheaper than the full period rental. And that's what happens in conventional [banking], they would give you a discount.' (R3)

Ijarah or lease transactions are similar to *murabaha* transactions in that they are intended as trade and not financing transactions. *Ijarah* transactions are executed in two distinct stages being, firstly, the lease of the asset and, secondly, the gift of the asset at the end of the lease term. These transactions should be viewed together to determine the economic substance of the *ijarah* transaction. Due to its trade nature, *ijarah* transactions necessarily require the lease to be over assets which cannot be consumed. When determining the accounting of *ijarah* transactions in terms of *ED2015/3 Conceptual Framework*, it is important to understand whether the Islamic bank controls the leased asset and derives economic benefit from deploying this asset or whether the Islamic bank holds the contractual right to receive cash flows from the borrower and does not, in fact, have control of the asset. In *ijarah* transactions, the Islamic banks retain title of the assets leased but do not have the ability to direct the use of the leased assets and do not control the leased assets. The *ijarah* transactions do, however, give the Islamic bank the right to receive contractual cash flows on the leased asset. The right to receive cash is a financial asset which may be measured at historical cost or current value in terms of *ED2015/3 Conceptual Framework*.

Both ABSA and FNB account for *ijarah* transactions as financial assets at amortised cost under *IFRS 9, Financial Instruments* which would be the present value of future cash flows at the effective interest rate. *Ijarah* transaction are executed in the same way as *murabaha* transactions, the only difference being that the Islamic bank retains the title of the *ijarah* asset for the period of the lease then offers the car to the borrower at no cost at the end of the lease. The accounting for *ijarah* therefore follows that of *murabaha* in being recognised as a financial asset at amortised cost as returns are determined at inception and recovered over the period of the lease. As a result, *ijarah* transactions are analysed as having passed both the business model test of holding financial assets in order to collect contractual cash flows and the characteristics test as repayments on specified dates which are solely payments of interest (profit) and capital.

The Islamic structure of *ijarah* transactions are those of an operating lease but, when combined with the period of the lease and the gift of the asset to the borrower at the end of

the lease term, bear the characteristics of a finance lease. It is interesting to note that the accounting for *ijarah* transactions by Islamic banks reflects a financial asset at amortised cost in terms of *IFRS 9, Financial Instruments* which is consistent with the analysis using *ED2015/3 Conceptual Framework* which supports the recognition of *ijarah* transactions at historical cost (the analysis also support recognition at current value). The accounting treatment under *IFRS 9, Financial Instruments* and *ED2015/3 Conceptual Framework* do not reflect the *Shariah* structure of an operating lease transaction.

4.6. Findings on diminishing *musharaka* transactions

Al Baraka Bank, ABSA, FNB and HBZ Bank all offer property financing under the *Shariah* principle of diminishing *musharaka*. ABSA uses this mode of financing for commercial property only, while HBZ Bank uses this mode of financing for commercial and residential property, motor vehicles and equipment. Al Baraka Bank and FNB finance both commercial and residential properties under diminishing *musharaka*.

Musharaka is a form of partnership in which both the bank and the customer make contributions to the partnership but only the customer uses the asset of the partnership. Included in this agreement is an undertaking by the customer to purchase back the bank's share of partnership and, ultimately, become the sole owner of the asset. This repurchase is usually structured in instalments over a number of years.

'So in the [diminishing] *musharaka*, what happens is that, say the property is R10 million and we [the Islamic bank] tell you we want a deposit of 20%, so that R2 million becomes your [the customer's] equity in that property, so you [the customer] own 20% and we [the Islamic bank] own 80% and we [the Islamic bank] would fund the 80% of the property, so we [the Islamic bank and the customer] are in a partnership on the property. We [the Islamic bank] would follow the normal process in terms of registering a bond and all of that because that's the normal requirements.' (R3)

'Over a period of say twenty years, the 80% that the bank owns will be sold to the individual [customer]. In the first year, you [the customer] own 20% and the bank owns 80%. Assuming the bank sells you [the customer] 8% a year, in the second year, you [the customer] own 28% and the bank owns 72%. In the third year, you [the customer] own 36% and the bank owns 64% and in that way over a period of time the house ownership goes to the individual [the customer]. That's how diminishing *musharaka* works.' (R1)

In South Africa, the Islamic banks use different methods to facilitate the buy-back of the shares by the customer. At ABSA and HBZ Bank, through a series of contracts, customers buy back the Islamic bank's share of the partnership at cost i.e. at the original value of the asset. In this instance, Islamic banks earn returns on diminishing *musharaka* transactions through charging a rental to the customer for use of the bank's share of the asset. In the example quoted by (R1) above, the bank would charge the customer a rental for 80% of the property occupied by the customer for the first year, rental for 72% of the property in the second year and rental for 64% of the property in the third year and so on.

There are three agreements: the one is the *musharaka*, the partnership [agreement] the initial [agreement]. Then [the second agreement] we have an undertaking to purchase which basically says we [the Islamic bank] don't want to hold on to the property, that's not our business and you [the customer] would undertake [to repurchase the bank's stake] monthly or quarterly or however the payments are structured and that will be at cost. So over the term, every month you [the customer] will repurchase the equity until you [the customer] own 100% and we [the Islamic bank] own 0. Then [the last agreement] we [the Islamic bank] charge you a rental in proportion to our holding.' (R3)

'[So diminishing *musharaka* uses *ijarah* principles as well? And only for the capital you use *musharaka*?] Diminishing *musharaka* [is used] on the capital side and *ijarah* [is used] on the rental side.' (R7)

Al Baraka Bank and FNB, on the other hand, sell the bank's equity stake at cost plus a mark-up once a year, in equal instalments calculated by dividing the Islamic bank's equity stake to be sold over the period of the contract. Using the example cited by (R3) above (for a property worth R10 million, the Islamic bank has an 80% equity stake and the customer has a 20% stake): if the contract is over ten years, the bank will each year, at the anniversary of the contract sell 8% of its equity stake. Each year, at the anniversary of the contract, the profit mark-up on the equity stake instalment to be sold in the next year is agreed. Profit mark-up may, therefore, vary year-on-year. For example, an 8% equity stake sold by the Islamic bank in year one may at a higher or lower amount than the 8% equity stake sold in year two.

'...you [the customer] sign a diminishing *musharaka* agreement. So a diminishing *musharaka* agreement states that you will have use of the house. There are quite a few things in terms of the use agreement; what you [the customer] are allowed to do, what you [the customer] are not allowed to do.

Also the agreement would say over a specified amount of time depending five, ten, fifteen, twenty years, up to twenty years' maximum, you can purchase the bank's interest in the property back over that period of time in equal chunks or it's up to you. At the end of the first year, it's based on a one-year fixed period; we will sell you maybe another 10%, depending on the term, at a mark-up. So other banks when you rent the house, there's a rental component and a resale component, we cut out the rental component, we just sell you back the share at a mark-up. [So then you [the Islamic bank] are using *murabaha* principles?] It is *murabaha* entwined in a diminishing *musharaka*.' (R6)

Similar to *ijarah* financing discussed above, the rental charged in diminishing *musharaka* agreements is based on standard amortisation tables as used in conventional banking as opposed to actual rental values the asset would generate.

'When we actually draft our lease amortisation schedules, we specifically draft it in such a way that it actually accommodates the Islamic contract. So what we do, we actually assign R1 equals to 1 unit so whatever capital you [the customer] are paying off, it actually shows that this is the repurchase of units on diminishing *musharaka*. And whatever rental portion or interest portion in conventional terms is the rental allocated to those leftover capital units.' (R4)

Likewise, the profit mark-up charged by the Islamic banks on sale of *musharaka* shares to the customer is based on financing principles and returns payable to depositors rather than the appreciation of the value of the asset since the original agreement.

'When we [the Islamic bank] are taking your [the *mudaraba* depositors'] one year funds from you [the *mudaraba* depositor], we [the Islamic bank] are not promising you [the *mudaraba* depositor] but we [the Islamic bank] are giving you [the *mudaraba* depositor] an indicative rate on what one year returns will be. So when we [the Islamic bank] are funding the one year on the other [diminishing *musharaka*] side, we [the Islamic bank] need to make sure that we [the Islamic bank] are able to generate the profit to give you [the *mudaraba* depositor] the return. So we [the Islamic bank] take all of those factors into account when we are selling [marking-up] our stake in the [diminishing *musharaka*] property.' (R6)

Diminishing *musharaka* transactions are early settled when the customer buys back the bank's full share earlier than originally contracted for. Islamic banks that facilitate repurchase by the customer of the Islamic bank's share at cost, allow more flexibility and allow early settlement

at any stage during the contract at cost. The resulting rental ceases as the Islamic bank no longer owns any shares in the asset.

‘[If the customer wishes to purchase the bank’s entire share two months into the contract? No problem, we [the Islamic bank] [will] take the rental for the two months [that the asset was partly owned by the Islamic bank] then you [the customer] pay back the principle [at the original cost of the asset].’ (R7)

Early settlement of diminishing *musharaka* transactions where the Islamic banks resells the equity stake at a mark-up may only happen once a year at the anniversary of the contract. Equity sold to customers over the annual prescribed repurchase percentage (8% in the example above) are at cost and do not carry a mark-up.

‘So we [the Islamic bank] are entitled to our year’s profit that we [the Islamic bank and customer] agreed upfront already. So remember, the diminishing *musharaka* contract in year one, we enter into an agreement where over the year you [the customer] are going to buy back only [the prescribed] 8% share at a mark-up. We [the Islamic bank] don’t enter into an agreement to say the rest of the years what that mark-up price is. So as a[n] [Islamic] bank we can sell that to you at any rate going forward. But we [the Islamic bank] give you an indication that during the term of the loan your rate will be the Islamic base lending rate plus a profit mark-up. So we can sell it to you at just the Islamic base lending rate, it’s very flexible. So we give our customer a lot of flexibility.’

Diminishing *musharaka* contracts contain elements of both trade (*ijarah* or *murabaha*) and partnership which are viewed as a single unit of account as prescribed by ED2015/3 *Conceptual Framework* when determining the accounting for these transactions. Diminishing *musharaka* transactions in the South African Islamic banking context can be viewed as the Islamic bank’s investment in a property⁷ and returns on that investment or can be viewed as the extension of collateralised finance to a borrower. It is important to understand that Islamic banks are not in the business of investing in property but rather in providing finance. Investments in diminishing *musharaka* properties are preceded by an undertaking from the borrower to purchase the Islamic bank’s share of the property. As part of the diminishing *musharaka* agreement, Islamic banks often dictate the allowed and disallowed actions to the property, possibly indicating control over the use of the property. On further inspection, these terms are included more to protect the value of the property than to dictate the use of the property. Returns on diminishing *musharaka* products are earned through lease of the Islamic

⁷ All Islamic banks included in the study offer property finance in terms of diminishing *musharaka* principles. Only HBZ Bank offers diminishing *musharaka* for motor vehicles and equipment finance as well.

bank's portion of the property or resale of the Islamic bank's share in the property at a mark-up. Both of these values are determined using the Islamic bank's internal rate of return, rather than the market value of the property indicating that the Islamic bank's exposure is not the economic benefits of the property but rather the contractual right to receive pre-agreed cash flows. The right to receive cash is a financial asset which may be measured at historical cost or current value in terms of *ED2015/3 Conceptual Framework*.

Al Baraka Bank, ABSA, FNB and HBZ Bank all account for diminishing *musharaka* transactions as financial liabilities at amortised cost under *IFRS 9, Financial Instruments*, regardless of the method returns on diminishing *musharaka* are earned, i.e. rental or mark-up. This accounting treatment is supported by each of the Islamic bank's business model of collecting contractual cash flows. When determining the characteristics of the instrument test, the Islamic banks concluded that, even though the structure of the agreement was that of a partnership, the risk exposure was similar to that of a conventional lending agreement. The Islamic banks equated changes in the *ijarah* lease rate and *murabaha* mark-up with changes in the variable interest rates consistent with the spirit of the contract. Changes in *ijarah* and *murabaha* rates are based on the Islamic bank's internal rate of return which is, in turn, governed by market rates of return (in order to remain competitive). Each of the banks included in the study concluded that the substance of a diminishing *musharaka* agreement is that of deferred payment while the form is that of a partnership. They further concluded that the above factors appropriately support diminishing *musharaka* transactions as a collection of fixed or determinable cash flows which comprise of principle and interest and so satisfy the characteristics-of-the-instrument test for measurement at amortised cost.

Diminishing *musharaka* transactions consist of a series of contractual arrangements between the Islamic bank and the borrower which ultimately results in the borrower purchasing property with the assistance of the Islamic bank and the Islamic bank obtaining a return for this assistance. It is interesting to note that the proposed accounting treatment using *ED2015/3 Conceptual Framework* is consistent with the Islamic bank's accounting treatment of diminishing *musharaka* transaction under *IFRS 9, Financial Instruments*. Neither of these accounting treatments reflects the *Shariah* structure of a partnership agreement.

5. Conclusion

This section summarises the findings from interviews and provides closing remarks (section 5.1). The thesis's contribution is highlighted in section 5.2 and the inherent limitations and areas of future research are discussed in section 5.3.

5.1. Summary of the thesis

The formulation of Islamic banking was the idea of creating an alternate financial system to the Western financial system which dominates world markets (Ariff, 1988). For this to materialise, Islamic banking transactions should adhere to *Shariah* requirements, as well as the spirit of those requirements. In an increasingly competitive global market, Islamic banks find themselves making compromises to remain competitive, resulting in an altered Islamic banking system that closely resembles the conventional banking system (R3). This research does not analyse the *Shariah*-compliance of Islamic banking transactions but analyses whether the accounting treatment of Islamic banking transactions under IFRS is consistent with the operational economics of the transaction.

The spirit of Islamic banking is to consider non-financial factors in its philosophy and operations, particularly the consideration of societal welfare. Islamic banking philosophy has regressed to the extent that not only is societal welfare absent from the business model but *Shariah* transactions that have inherent societal benefits are structured for the benefit of Islamic banks. As an example, *qard* transactions are interest-free loans extended to those in need as a form of charity and financial upliftment. Islamic banks should be extending *qard* transactions to the community but, instead, are the recipients of *qard* transactions. Another example is where Islamic banks should function as venture capital funders in the business of entrepreneurs to help create jobs and grow the economy. Instead, Islamic banks are requesting venture-capital funding in the form of *mudaraba* deposits for their own operations, the results of which are shared with depositors.

This perversion of the spirit of Islamic transactions extends to the modes used for financing. The most common financing modes are the trade-based transactions of *murabaha* and *ijarah*. Trade-based transactions when combined with deferred payments lose their trade characteristic and may create a back door for *riba* which is prohibited in Islam. The argument for back-door *riba* is strengthened by Islamic banks using interest rates and other interest-

based rates of return to determine mark-ups and profit margins on trade-type transaction. It would seem as if all the elements of a conventional transaction with interest are present, the only difference being that interest is called profit.

Islamic banks have taken care to structure the contracts of products to meet the requirements of *Shariah*, even if the spirit of *Shariah* is not followed. The result is that, when accounting for these transactions under IFRS which emphasises economic substance over legal form, a cognitive dissonance⁸ arises where the accounting for an Islamic banking transaction is significantly different from its contractual structure. While differences between assertions in a contract and views on the substance of that contract are not uncommon in conventional business, it is the exception. In Islamic banking, the level of cognitive dissonance is prevalent and affects all transactions.

There seems to be an element of lethargy in addressing this dissonance, with none of the respondents interviewed viewing this as a pitfall of Islamic banking or an area needing improvement. The overriding view is that *Shariah*-compliance and financial reporting do not necessarily demand the same answers and are, in fact, independent of each other. This poses a real risk of Islamic banks selecting accounting methods according to what is perceived to be the 'economic reality' when that accounting is neither consistent with the *Shariah* contract nor the detailed requirements of future IFRS.

Lastly, the review of IFRS accounting for Islamic banking transactions in South Africa has brought to the fore the cognitive dissonance between the structure and economics of Islamic banking transactions and the lack of reflection by the management of Islamic banks and their respective *Shariah* Boards on what is being achieved by the Islamic bank. If the motives of Islamic banks are aligned to those of conventional banks (i.e. to maximise profit), the level of cognitive dissonance will likely increase.

⁸ The term 'cognitive dissonance' was first used in an Islamic banking context by Wayne Upton (Co-ordinator of the IASB Consultative Group on *Shariah*-complaint Instruments and Transactions) in his paper titled '*Shariah-compliant leases – Lessor issues*'.

5.2. Contribution of the thesis

Firstly, this study answers the call of Kamla (2009) to interrogate the limitations and flaws in contemporary practices of Islamic banking and question the accounting for these. It complements the work of Chong & Liu (2009) and Iqbal & Molyneux (2005) by expanding on the disconnect between *Shariah* law and the execution of Islamic banking transactions. By using detailed interviews which covered all of the banks in South Africa which offer Islamic banking products and, by covering all of the different types of Islamic banking transactions offered, this study provides in-depth findings of the practical execution and IFRS accounting of Islamic banking transactions in South Africa. Although these findings cannot be generalised in a positivist sense, they may provide a basis of comparison for similar studies in other countries.

Secondly, this study contributes to the research on accounting for Islamic banking transactions using IFRS as encouraged by the IASB Consultative Group on *Shariah*-compliant Instruments and Transactions. This study has confirmed the diversity in practice of analysing Islamic banking products and determining the accounting treatment in terms of IFRS thereby emphasising the need for specific and detailed accounting policy disclosure by companies to help users understand the rationale behind the accounting treatment selected. This study has additionally proposed theoretical accounting treatments under IFRS for Islamic banking products which are executed in a similar fashion to those discussed in this study.

Lastly, this study is the first to provide an interpretive insight into the structure, economics and accounting of Islamic banking transactions in South Africa. It, therefore, adds to the body of research that has been conducted in more developed Islamic banking countries such as Saudi Arabia, United Arab Emirates, Pakistan, Egypt, to name a few (Siddiqi, 2006; Kamla, 2009; Beck et al, 2013; Salleh, 2012). This study is probably the first example of interpretive accounting research on Islamic banking in South Africa but this is not to say that this study is without limitations.

5.3. Limitations and areas for future research

This research used only the *Shariah* definitions when explaining the required structure of Islamic banking transactions offered in South Africa and did not consider practical perspectives to these definitions in the form of *fatwas* issued by *Shariah* scholars or in the form of opinions and papers by the *Shariah* Boards of the Islamic banks. This is an area of future research that can help us understand the link between *Shariah* definitions and practical execution of these transactions where different.

Related to this is the need to consider the wider aspects of a classical Islamic banking which considers societal welfare in the Islamic banking business model. The growth of Islamic banking, together with the need to remain competitive in relation to conventional banks, has seen societal welfare ignored or neglected. This is an area of research which will help highlight governance and accountability at Islamic banks.

Thirdly, this study did not highlight the conceptual and practical pitfalls within IFRS and how those pitfalls impact Islamic principles and the accounting of Islamic banking transactions. This is an area of research best approached one IFRS standard at a time.

Finally, a follow-up study could be conducted on changes made to in the structure of transactions at Islamic banks in response to the implementation of *IFRS 9, Financial Instruments*, *IFRS 15, Revenue from Contracts with Customers* and *IFRS 16, Leases*.

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VI. Appendix I – Interview agenda

Interview agenda



1. Introduction

2. Purpose of the study

3. Your involvement and consent

4. Interview questions

4.1. How are Islamic banking transactions offered by the bank executed in practice?

4.1.1. *Qard*

- How are *qard* transactions contractually structured and executed?
- Can a depositor earn a return on a *qard* account?
- Has the bank encountered any regulatory or *Shariah* anomalies and how did the bank overcome these?

4.1.2. *Mudaraba*

- How are *mudaraba* transactions contractually structured and executed?
- How are returns earned on *mudaraba* accounts and how is this distributed to depositors?
- Is a *mudaraba* depositor exposed to the risk of losing capital and has this happened?
- Has the bank encountered any regulatory or *Shariah* anomalies and how did the bank overcome these?

4.1.3. *Murabaha*

- How are *murabaha* transactions contractually structured and executed?
- How is the mark-up on *murabaha* transactions determined?
- Has the bank encountered any regulatory or *Shariah* anomalies and how did the bank overcome these?
- How is early settlement facilitated?

4.1.4. *Ijarah*

- How are *ijarah* transactions contractually structured and executed?
- How is the lease value on *ijarah* transactions determined?
- Has the bank encountered any regulatory or *Shariah* anomalies and how did the bank overcome these?
- How is early settlement facilitated?

4.1.5. *Diminishing musharaka*

- How are *diminishing musharaka* transactions contractually structured and executed?
- How is the lease value or mark-up on *diminishing musharaka* transactions determined?
- Has the bank encountered any regulatory or *Shariah* anomalies and how did the bank overcome these?
- How is early settlement facilitated?

4.2. How are Islamic banking transactions accounted for under International Financial Reporting Standards (IFRS) and what are the assumptions and judgements made in arriving at the accounting treatment?

5. Conclusion and follow-up.

VII. Appendix II – Ethics clearance

Ethics clearance was granted by the Research Committee of the School of Accounting of the University of the Witwatersrand. The ethics clearance number allocated to this research report is CACCN/1093.